

Tunisia
2011



MEDITERRANEAN SEA

Sicilia (Sicile)
ITALY

Strait of Sicily

La Galite

Bizerte

Menzel Bourguiba

Ariana

Bardo

TUNIS

Ben Arous

Béja

La Goulette

Isola di Pantelleria
ITALY

Sousse

Kairouan

Isole Pelagie
ITALY

Kasserine

Sfax

Gafsa

Iles Kerkennah











MEDITERRANEAN SEA

Gabès

Ile de Djerba

ALGERIA

LIBYA

-  Commercial Port
-  Petroleum Port
-  Fishing Port
-  Airport
-  Divided Highway
-  Main Road
-  National Capital (745 000 In. 2007)
-  over 200 000
-  over 100 000
-  over 50 000

0 km 30 60 90 km

This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Tunisia

Overview

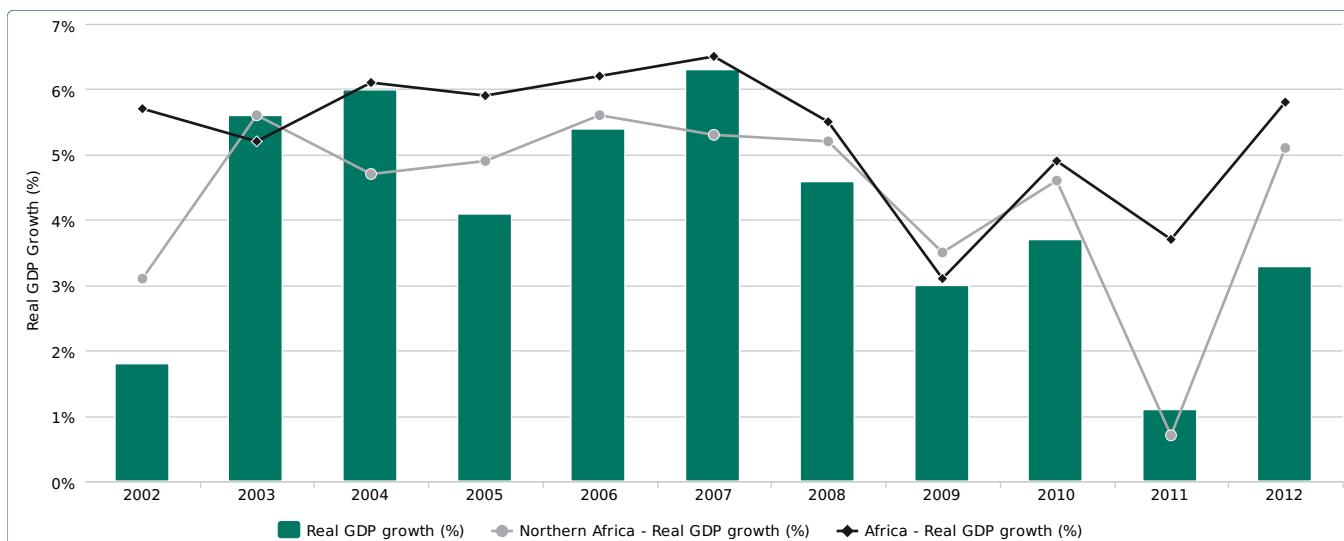
When a young man died after setting fire to himself in the town of Sidi Bouzid, 265 kilometers from Tunis, in mid-December, students, young people and others took to the streets to protest against unemployment and the high cost of living. Unrest and clashes with police and troops spread to other parts of Tunisia, including Jendouba, Kasserine, Le Kef and Gafsa, and then to big cities and the capital. President Zine El Abidine Ben Ali and his aides fled into exile in Saudi Arabia on 14 January 2011, ending his 23-year rule. The shock-wave of the revolution was felt in neighbouring countries. It also shook Tunisia's economic, social and political stability and sharply changed prospects for the future.

Budget and current deficits are expected to increase, due to the revolution's effect on tourism and foreign investment. Hopes for recovery are good thanks to sound macroeconomic policy in recent years. Corrective measures were taken early in the 2008/09 world economic crisis but growth should slow sharply to 1.1% in 2011, down from 3.7% in 2010 and 3% in 2009.

The interim government must organise the election of a constituent assembly in July 2011, but also end corruption and bad governance, restore the economy and meet numerous social demands. A return to normality and economic prospects for 2012 depend on how these challenges are met. The government will have to keep subsidies for staple products and energy to avoid unrest. It will also have to create jobs, both in the civil service and through public investment. Higher spending will increase the budget deficit to 5.2% of gross domestic product (GDP) in 2011 and 4.8% in 2012, up from a moderate 2.7% in 2009 and 2.6% in 2010. Inflation (4.4% in 2010) has already exceeded the 3% target for 2011 and should reach 4.7%. The external account will be affected by a drop in tourist revenue and bigger trade deficit. The current deficit is expected to rise substantially to 7.6% of GDP in 2011, from 4.7% in 2010 and 2.8% in 2009.

Tunisia has privileged ties with the European Union (EU) and is close to Arab League and North African countries through several free-trade agreements. Partners among the new economic powers are still few despite the attractive phosphate industry. Oil exploration and increasing mineral output should keep total exports at about a third of GDP. Nearly all the 18 targets under the Millennium Development Goals (MDGs) have been achieved, but more must be done to reach the goal of developing "strategies for decent and productive work for youth." Unemployment of qualified school-leavers and college graduates, as well as sharp economic disparities between the tourist-dominated coastal areas and the interior of the country, set off the uprising. Authorities have long recognised these problems but reforms have not sufficiently boosted competitiveness and employment. The country has made little progress with reforms, moving with a caution often criticised by international financial institutions. This hesitance increased during the world financial crisis. The revolution is therefore a new chance to speed up reform and improve governance, competitiveness and respect for human rights.

Figure 1: Real GDP growth (N)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932404655>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3	3.7	1.1	3.3
CPI inflation	3.5	4.4	4.7	4.6
Budget balance % GDP	-2.7	-2.6	-5.2	-4.8
Current account % GDP	-2.8	-4.7	-7.6	-5.6

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932407011>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	10.1	8.9
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.7	1.1
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	17.3	17.1
of which hydrocarbon	-	-
Electricity, gas and water	6.2	8.5
Electricity, water and sewerage	-	-
Construction	5	4.8
Wholesale and retail trade, hotels and restaurants	14.7	13.7
of which hotels and restaurants	6	5.5
Transport, storage and communication	13.2	13.4
Transport and storage, information and communication	-	-
Finance, real estate and business services	-	-
Financial intermediation, real estate services, business and other service activities	-	-
General government services	16.8	16
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	16	16.4
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; Ministry of Development and International Cooperation.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407980>

The European Union (EU) remains by far Tunisia's biggest economic partner. More than three-quarters of its

tourist arrivals, foreign direct investment (FDI) and export markets are in Europe, and remittances come from some 700 000 Tunisians who live there. Tunisia's exports and industry were hit by the strong EU recession in 2009, but the country's economic growth was still 3% in 2009 and improved to 3.7% in 2010 thanks to good internal demand (mainly private consumption and public and private investment) despite poor results in agriculture.

The primary sector accounted for 8.3% of GDP in 2010, though the sector shrank 8.8% (after growing 6% in 2009) because of bad weather. Drought cut winter cereal production 45% compared with 2009, according to the UN Food and Agriculture Organization (FAO), and more than 20 million quintals were imported. Food imports also cost more due to higher world prices of wheat, especially after Russia banned exports. Cereal production is expected to be supported by subsidies and incentives. Some 150 000 tonnes of olive oil were produced in 2010, down 2.5% on 2009. Tunisia remains the world's third biggest exporter however. Production of milk, red meat and fish was slightly up. Agriculture was expected to return to growth in 2011, at around 6.7%.

Manufacturing did better in 2010, shrinking only 0.7% (compared with 3.3% in 2009). The stagnation was due to a 79.9% drop in oil refining, after environmental problems forced the *Société tunisienne des industries de raffinage* (STIR) to halt operations to build a new refinery. This setback was partly made up for by strong performances by mechanical and electrical industries, agro-industry and construction materials. Mechanical, chemical and electrical industries, textiles, clothing, leather and shoes were the major exporters. Many sectors did better as Europe recovered from the recession, despite textiles (in decline since the end of the Multi Fibre Arrangement in 2005) shrinking a further 1.5%.

Non-manufacturing industries grew 11.5% in 2010, against 3.7% in 2009, because of recovery by the non-refinery oil sector, which was up 19%. Reserves and output of oil and natural gas fell but exploration continued, with the *Entreprise tunisienne des activités pétrolières* (ETAP) planning to invest in the Hasdrubal oil and gas field south of Sfax with the aim of producing up to 100 million cubic feet of gas a day for national consumption and oil and condensates (light oils) for export. Its partner, BG Group of Britain (formerly British Gas), already Tunisia's main gas producer, would become its biggest producer of liquefied petroleum gas (LPG), supplying half the country's needs. A EUR 83 million LPG tank-farm is to be built. Mining grew slightly (0.2%) in 2010 after a bad year in 2009 (down 1.6%). The price of phosphate fell by about USD 75 a tonne in 2009, cutting the revenue of *Groupe chimique tunisien* (GCT) by 49.3% that year. An agreement to curb price fluctuations was signed between GCT and the *Compagnie des phosphates de Gafsa* (CPG). Tunisia's exports of phosphate and fertilisers are a key economic asset for the emerging economies. CPG will supply the Indian-Tunisian firm Tifert with an annual 1.4 million tonnes of raw phosphate from 2012. Existing stocks of 6.9 million tonnes will meet extra demand. CPG has launched a two-year 428.2 million Tunisian dinars (TND) (EUR 222 million) investment plan to boost its mining capacity.

The service sector supplied 47.9% of GDP in 2010 and is expected to provide half of it in the next few years. Telecommunications is still growing at a double-figure rate. The revolution paralysed tourism however, raising fears of substantial layoffs, less foreign exchange revenue and default on debts to commercial banks by major tourist complexes. In the very short term, the country will have to regain the confidence of tour operators and in the medium term continue to improve the quality and diversity of tourist services. Tourism contributes 5.4% of GDP, employs 400 000 people and provides 12% of the country's foreign exchange revenue, but even in normal times the tourist daily spend of USD 60 a day is less than in nearby Egypt, Morocco and Turkey.

Tunisia's economic growth has long depended on household consumption, along with private investment and exports, both of which have been affected by the revolution. Predictions for 2011 and 2012 are based on a speedy return of social, political and economic stability. The wage bill is expected to rise at least 5% in both public and private sectors due to employees' demands and a 13% rise in the number of civil service jobs. Private investment is predicted to fall 10%, tourist revenue 20% and exports 3.6% in 2011. But social appeasement measures should boost household spending power and thus economic growth. Public consumption rose in 2009 and 2010 in response to the financial crisis and may remain very high to meet social demands. Public gross fixed capital formation should not increase however in 2011, so as to contain the budget deficit, but may rise very slightly in 2012 in continuing support of major infrastructure projects and job creation. Private investment is not expected to recover until 2012, when it should grow by 4.5%. Free elections, a return to political stability and reforms to boost competitiveness should help.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	23.8	24.8	12	-8	4	2.7	-2	0.9
Public	4.8	4.9	12	0	2	0.5	0	0.1
Private	19	19.9	12	-10	4.5	2.2	-2	0.8
Consumption	80	78.1	4.5	5.2	2.8	3.6	4.1	2.4
Public	17.2	16.2	4.5	13.8	1.7	0.8	2.3	0.3
Private	62.7	61.9	4.5	2.8	3.1	2.8	1.8	2
External sector	-3.8	-2.9	-	-	-	-2.6	-1.1	0.1
Exports	40.8	45	2.6	-3.6	4.8	1	-1.3	1.7
Imports	-44.6	-48	8.9	-0.6	3.9	-3.5	0.2	-1.6
Real GDP growth rate	-	-	-	-	-	3.7	1.1	3.3

Source: Data from Central Bank; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408949>

Macroeconomic Policy

Bold macroeconomic policies softened the blow to national growth of the world economic crisis in 2009 and 2010 and their boost to recovery should continue in 2011 and 2012. As well as creating jobs, the government wants to reduce inflation through consumer subsidies. The budget deficit should grow in 2011 and external imbalances increase, due to less FDI and fewer tourists.

Fiscal Policy

The government had planned to be stricter with current spending and subsidies, so as to increase public investment and growth without swelling the budget deficit in 2009 and 2010. But the January 2011 uprising will push current spending up sharply in 2011 and 2012, adding to the deficit. The cost of the uprising for the government was put in January 2011 at nearly TND 3 billion (EUR 1.55 billion).

Current spending in 2010 was about 18.4% of GDP (18.1% in 2009) due to recovery measures taken after the world economic crisis, including an 8% higher wage bill for 2010 and creation of 16 000 public sector jobs. Investment spending also increased in 2010. Major public infrastructure projects to ease the crisis should continue at a slower pace in 2011 and 2012, so as not to widen the budget deficit. The government helped exporting firms through the crisis in 2010 with funding to encourage job creation and boost their income, and also increased subsidies for fuel, food staples and transport. Prices of these subsidised items were expected to rise gradually as subsidies were reduced, but the revolution has changed all this and the TND 1.5 billion in subsidies in 2010 has risen to 2 billion in the 2011 budget.

Spending rose in 2010 and was set to increase sharply to about 28.5% of GDP in 2011, with tax revenue about 20%. This means the budget deficit will grow – from 2.7% of GDP in 2009 and 2.6% (2010) to 5.2% in 2011 and 4.8% (2012), all of it domestically funded.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	23.3	21.9	24.2	23.1	23.1	23.3	23.1
Tax revenue	19.5	19.1	20.5	19.9	20.1	20.2	20
Oil revenue	-	-	-	-	-	-	-
Grants	0.4	0.1	0.3	0.3	0.2	0.2	0.2
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	25.6	24.5	24.8	25.8	25.7	28.5	27.9
Current expenditure	18	18.4	19	18.1	18.4	21	20.6
Excluding interest	15.2	16	16.9	16.1	16.4	19.1	18.9
Wages and salaries	11.2	10.6	10.4	10.7	10.7	12.1	12
Goods and services	1.5	1.6	1.6	1.7	1.9	2.3	2.3
Interest	2.8	2.4	2.1	2	1.9	1.9	1.7
Capital expenditure	7.3	5.4	5.8	6.6	7.2	7.3	7.1
Primary balance	0.5	-0.2	1.4	-0.7	-0.7	-3.3	-3
Overall balance	-2.3	-2.6	-0.7	-2.7	-2.6	-5.2	-4.8

a. Only major items are reported.

Source: Data from Central Bank; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932409918>

Monetary Policy

Monetary and exchange policy aims to head off inflation and ensure a solid external balance. Official goals for 2011 and 2012 include boosting the financial sector and continuing to liberalise foreign transactions. But the revolution has weakened banks and the financial system. Soft loans to troubled sectors such as tourism, as well as to the families of former President Ben Ali and his wife, may increase the amount of bad debts and affect the prudential ratios of commercial banks.

Monetary policy also seeks to streamline operations, so as to attack inflation, which rose to 4.4% in 2010 (from 3.5% in 2009) and is expected to be 4.7% in 2011 and 4.6% in 2012, well above the goal of 3%. The new government will probably not be able to alter monetary policy very much.

The Central Bank has not changed interest rates since it lowered its intervention rate in February 2009. To mop up excess liquidity in 2010, it was more active in money markets and increased required reserve ratios, from 7.5% to 10% in March 2010 and then to 12.5% in May. These steps, along with lower foreign exchange reserves, greatly reduced the commercial banks' liquidity, so the Central Bank had to supply cash to them after the revolution. Exchange reserves continued to fall, to TND 12.2 billion (EUR 6.32 billion) (139 days of exports) in February 2011, down from TND 13 billion in December 2010 (147 days of exports).

Tunisia's exchange policy aims to keep the economy competitive and there are no restrictions on standard foreign payments and transfers. Convertibility of the dinar requires a more solid financial system and major reforms. It would increase the risk of financial contagion from outside but could also boost economic growth. The dinar fell 9.2% against the US dollar in 2010 but was steady against the euro. The authorities were hoping to achieve dinar convertibility and opening-up of the capital account by 2014 but this may now be delayed while the financial system is strengthened after the damage done by the revolution.

The Tunis stock exchange index fell 9.8% during October 2010 after a 10% tax on share profits was announced in the 2011 budget. The tax was amended for profits of more than TND 10 000. In January 2011, during the revolution, prices of 45 of 46 traded stocks fell and the exchange was closed. Tunisia's stock exchange capital (about 20% of GDP) is not very high for the region. Eleven of the country's 20 or so commercial banks are quoted on the Tunis exchange.

External Position

Tunisia belongs to the Union for the Mediterranean (UPM) and has very close ties with its main trading partner, the EU. Free trade in industrial goods was introduced in Tunisia in 2008 and bilateral talks are just starting on opening up trade in services, farm products and processed food. To strengthen its incorporation into the European-Mediterranean region, which includes 42 countries and more than 700 million consumers, Tunisia has also adopted (when it signed the Barcelona Declaration in 1999) the pan-Euro-Mediterranean cumulation of origin system (a gradual extension of the pan-European cumulation system to other countries by 2010).

Tunisia continues to open up to the outside and lower its customs duties to meet international free-trade commitments. The government said in 2010 it would cut its highest duty from 36% to 30% and promised to reduce rates for nearly 1 250 tariff headings or exempt them entirely. Free-trade agreements have been signed with Turkey and with countries of the Arab League, the European Free Trade Association (EFTA - Norway, Switzerland, Iceland and Liechtenstein) and the Agadir Agreement (Morocco, Egypt and Jordan). Tunisia takes part in sub-regional integration efforts through the Arab Maghreb Union (AMU - Algeria, Libya, Mauritania, Morocco and Tunisia). Tunisia and Libya also agreed in May 2010 to allow free movement of goods and people across their shared border and to set up a free economic zone there, but this has been delayed because of the political upheavals in both countries.

Before the February 2011 revolt in Libya, they were discussing a banking union and a shared bank credit card. Libya is Tunisia's main regional economic partner, with more than USD 2 billion worth of trade in 2010, and its fifth biggest trade partner worldwide. The conflict in Libya will hit bilateral trade and direct investment as Libya is the fourth largest Arab investor in Tunisia. It will also affect employment prospects and the funds that come from migrants as more than 90 000 Tunisians were working in Libya before the uprising.

Tunisia has a preferential trade agreement with the West African Economic and Monetary Union (WAEMU) and free trade agreements with the Central African Economic and Monetary Community and other countries in Africa and the Middle East. It has 100 or so commercial agreements. Its deal with Syria, for example, covered USD 37.5 million worth of trade in 2009. A free trade accord with the United States has been delayed because of Tunisia's reluctance to open up its agricultural and banking sectors.

The depreciation of the dinar against the euro in 2009 stabilised the trade balance and made Tunisia's goods

more competitive, but exports, which rose in 2010, are expected to fall back in 2011 because of economic instability and the shutdown of some firms. Imports were up in 2010 and 2011 due to the need for cereals and also fuel (after closure of the country's oil refinery). Energy and lubricants were 77% by value of all imports because of higher crude oil prices and the rise of the US dollar against the dinar. The cost of imports, long greater than export earnings, produced a trade deficit equivalent to 10.9% of GDP in 2010 and expected to rise to 12.4% in 2011 and 11.6% in 2012. The deficit was covered in 2010 by drawing on foreign exchange reserves.

Mechanical and electrical goods led exports with 34.5% of the total, followed by textiles and clothing (22.3%). The EU is still Tunisia's main customer and bought 18.3% more of the country's products in 2010 over 2009. Exports to the AMU fell slightly (4.2%) as did sales to the Far East (down 5.1%), while exports to North America rose 115.6% and to non-EU European countries 101%. Exports of vegetable oils and organic dates did well and organic agricultural exports as a whole were up 15% in quantity and 30% by value compared with 2009.

The current account deficit was smaller than the trade deficit because of a services balance surplus, but with the current upheavals, especially in tourism, the current account was expected to rise to 7.6% of GDP in 2011 (from 4.7% in 2010).

Foreign investment has begun to recover from a slump in 2009 due to the world economic crisis and rose slightly in 2010, though not yet to pre-crisis level. The new uncertainties will again slow this funding. About 73% of foreign investment is direct and 12% portfolio investments and is focused on the energy sector (55%) and manufacturing (21.8%). Foreign investment in industry fell 14.9% in 2010.

Ratings agencies downgraded Tunisia's foreign debt in mid-January 2011. The Central Bank quickly responded, saying the country would repay all its debt on time and not seek new loans abroad. The government has substantial repayments due in April and September 2011, of USD 775 million on treasury bonds floated on the international market. The ratio of external debt to gross national disposable income (GNDI) was 36.9% in 2010 (38.1% in 2009). The debt service to exports ratio fell to 11.8% in 2010 (from 12.2% in 2009). Tunisia's debt situation is very satisfactory and is backed by multilateral and bilateral funding sources.

Table 5: Current account (percentage of GDP)

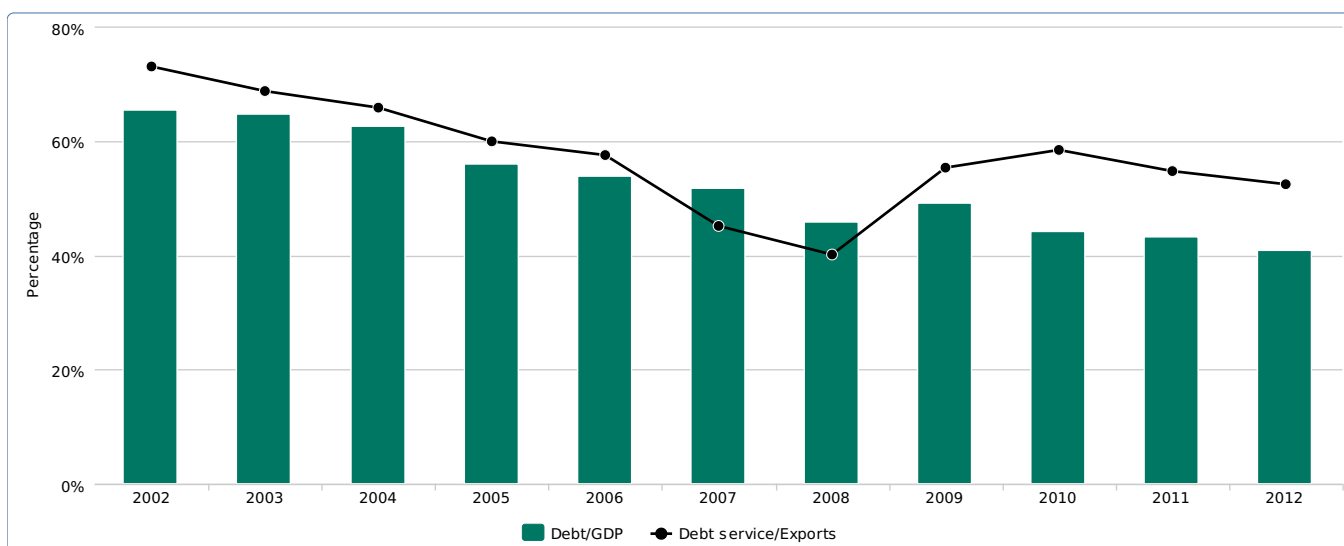
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-9.2	-7.4	-8.9	-8.5	-10.9	-12.4	-11.6
Exports of goods (f.o.b.)	29.6	38.9	42.7	33.1	33.7	33.4	33.6
Imports of goods (f.o.b.)	38.8	46.3	51.7	41.6	44.6	45.8	45.3
Services	5.3	5.4	5.9	5.8	6.3	4.8	6.1
Factor income	0.3	-0.8	-1.2	-0.7	-0.6	-0.6	-0.6
Current transfers	0.3	0.5	0.5	0.5	0.6	0.7	0.6
Current account balance	-3.2	-2.4	-3.8	-2.8	-4.7	-7.6	-5.6

Source: Data from Central Bank; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410887>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404655>

Structural Issues

Private Sector Development

The entourage of Tunisia's former president built a financial empire estimated at more than USD 12 billion, covering the media, transport, banking, telecommunications, tourism, distribution and other interests. The ex-president's associates have been accused of fraudulently acquiring or seizing a large amount of private property and profitable businesses, with businessmen reportedly blackmailed. The flight or arrest of members of the entourage will enable some property to be recovered and also remove the burden on the private sector of these predatory practices. The country can thus greatly improve its business climate and quickly regain investor confidence.

The World Bank's 2011 *Doing Business* report moved Tunisia up to 55th place in the world business climate rankings (from 58th in 2010). The government introduced a new customs law in 2009 to speed up formalities. Tunisia aims to become a clearing-house for banking services and a regional financial centre over the next five years through its giant *Port financier de Tunis* project. The government is also helping small and medium-sized businesses with several investment trusts to fund innovative projects and new technology.

The industrial sector has 5 837 firms employing 10 or more people, of which 2 763 are entirely producing exports of textiles (35%) and agro-food products (18%) and receive "offshore" incentives. The companies complain that poor access to credit and excessive red tape are the main blocks to private-sector investment and expansion. Restrictions on foreign ownership are also a serious barrier to property investment, especially by Gulf state citizens. Permission to purchase must be obtained from provincial governors except for economic projects in industrial or tourist areas.

The international financial crisis did not affect the financial sector because the banks do not depend on external funding. As well as their meagre links with the world market, they require excessive security of up to twice the amount of a loan. Interest rates are still high and other funding sources (leasing, risk capital and the financial market) under-developed. Financial solidity indicators improved in 2010 but the effect on the banking system of the practically zero-interest loans obtained by the Ben Ali and Trabelsi families will have to be investigated, along with the impact of the tourist sector problems. The Basel II framework recommendations should be adopted, including a way to insure deposits funded by banks.

Other Recent Developments

Only 11 state firms remain to be privatised out of the list of 230 drawn up in 1987. The most recently sold off were five industrial firms, five service companies and one agro-industry operation. Service sector firms dominated (54%) those privatised in 2010 and raised the most money for the government (84.5% of the total). This was largely due to sales of TND 3.05 billion in shares in *Tunisie Télécom* put on the market in 2008. Industrial firms were 37.9% of all firms sold off and 18% of the total proceeds, compared with 8.3% and 0.7% for firms in agriculture and fisheries. Companies illegally acquired by the Ben Ali and Trabelsi families may be taken over by the government and then sold off.

Tunisia has begun huge tourist infrastructure projects but most of them, funded by Gulf states, were halted by the world financial crisis. Only the Sports City in Tunis, financed by the Gulf group Abu Khater, has continued on a 256-hectare site in a northern suburb. In other sectors, Gulf Finance House has announced two major projects. One is the USD 4-5 billion 520-hectare Tunis Financial Harbour, which it is hoped will become North Africa's top offshore financial services centre from 2014. The other is a USD 3 billion information technology centre, Tunis Telecom City, that could generate 26 000 jobs. But experience in the tourist sector shows that such mega-projects are dependent on the world economic situation and the uncertainty brought by the revolution could scare investors.

The government plans to build a 1 200 kilometre express road network by 2016. Stretches include Oued Zarga-Boussalem, Gabès-Médenine, Médenine-Ras Jedir, Enfidha-Kairouan-Sidi Bouzid-Kasserine-Gafsa. Plans also include widening the Hammamet-Enfidha motorway, upgrading 1 220 km of other roads and building 760 km of unsurfaced country roads. Construction of a metro network in Sfax and a high-speed rail line are being studied. Tunisia's incorporation into major maritime routes and increasing its share of merchant shipping handling its foreign trade are also being planned. A logistic activities zone is to be built in Radès, a logistic and industrial services area at the port of Zarzis and a commercial and industrial zone in Ben Guerdane. A USD 3 billion two-phase deep-water port is being built at Enfidha to connect to rail lines and the local international airport.

Tunisia continues to expand its information technology facilities and has Africa's highest Internet penetration rate (34% compared with the African average of 9.6%) and a 3 500% increase in users over the past 10 years. A third information technology cyberpark has opened in Médenine. The Orange company won a mobile and fixed-

line phone licence in May 2010 and offers a high-speed 3G+ service. It has quickly achieved 64% coverage of the country, ahead of *Tunisie Télécom* and Tunisiana.

The country is making fast progress meeting environmental and sustainable development challenges. Desertification and deteriorating ecosystems in northern forested areas, savannah, sub-Saharan plains and the 1 300 km coastline are a threat to water, soil and fishing stocks. Awareness campaigns and special projects have been launched to combat pollution and desertification and save energy. Irrigated farmland with water-conservation facilities increased from 322 377 hectares in 2006 to 344 412 in 2009. Organic farming has also expanded, from 9 000 tonnes (2002) to 170 000 (2008) and 230 000 tonnes in 2009. The combined area of solar energy panels for water-heating should reach 740 000 square metres by the end of the 2008-11 energy conservation programme. The Desertec Industrial Initiative launched a project in 2010 to generate 500 megawatts of green electricity. The government's environmental protection policy is mainly funded by multilateral and bilateral aid.

Agrarian reform plans include registration of 948 000 hectares of land, auctioning of 15 000 hectares and rehabilitation of 50 000 hectares, all belonging to the state. This aims to create 400 companies to develop agriculture and equip 3 000 plots of land – 1 000 for agricultural technicians and 2 000 for young farmers.

Emerging Economic Partnerships

Tunisia is looking for new economic partners and markets after completion in 2008 of the process of opening up trade in industrial products with the EU. China, India and Turkey are its most active new partners in trade and direct investment. Tunisia's main selling point is its closeness to Europe, the Maghreb nations and Africa.

Between 2000 and 2009, trade increased tenfold with China, fivefold with the United Arab Emirates (UAE) and three to four times with Brazil, India, Indonesia, Kuwait and Turkey. The world's fifth largest phosphate producer, Tunisia mainly exports inorganic chemical products and fertiliser to Brazil, China, Argentina, Saudi Arabia, India and Turkey. It imports mostly electrical equipment from China and India, salt, sulphur, lime and cement from Kuwait and the UAE, sugar and sugar products from Brazil and cotton from Turkey. It has had a trade deficit since 2008 with emerging countries, except India, which is the world's biggest importer of phosphoric acid. Tunisia sells India 2.5 million tonnes a year, worth TND 721 million in 2008 - 12% of India's total imports of phosphoric acid and expected to rise to 20% in 2011 under a new partnership agreement. Tifert - the country's first mixed-capital company, comprising two Tunisian state firms (CPG and GCT) and two Indian companies, Gujarat State Fertilizers and Chemicals (GSFC) and Coromandel Fertilizers Limited (CFL) - began operations in June 2010 in Skhira. Tifert is capitalised at TND 90 million and the TND 225 million Skhira phosphoric acid plant (with 360 000 tonnes annual production capacity, all for Indian customers) has created 350 jobs.

Table 6 shows that FDI by emerging countries in Tunisia was mainly in services in 2008/09, while industry attracted funding from a wider range of countries. Neighbouring Libya is the only country to have invested heavily in all sectors of Tunisia's economy.

Tunisia and Turkey have freely traded industrial products since November 2004 and gradually lowered tariffs on agricultural items. In 2010, 27 Tunisian firms were operating in Turkey. Relations with Argentina, Brazil and China are governed by various diplomatic, economic, financial, technical, scientific and legal agreements and trade tariffs remain very high, with partnership and co-operation only just beginning. Only six of the 3 000 or so foreign firms in Tunisia in 2010 had Chinese capital in them. Exports to Brazil were seriously obstructed by high import duties of 80% for vegetable oils and 70% for dates in 2010.

Ties with the UAE are deeper and long-established, with a first economic co-operation accord signed in 1975. Despite the suspension of investment in the Samar Dubai services and business-hub project because of the world economic crisis, several UAE firms are still putting money into Tunisia. A council of Tunisian businessmen in the Gulf states was set up in September 2010 to boost trade, investment and jobs for Tunisians, especially university graduates, in the Gulf.

Political Context

President Zine El Abidine Ben Ali abandoned his post and left the country on 14 January 2011 after a month of violent street protests. Parliament president Fouad Mebazâ constitutionally replaced him and formed a transitional national unity government. Ben Ali's political party, accused of terrorising people after his departure, was disbanded. The state of emergency proclaimed after he left is expected to remain until free elections are held. The national constitution requires presidential elections within two months but these will not take place before 2012. Elections will be held in July 2011 to choose a constituent assembly to draft a new constitution. To speed up the changes, parliament (still dominated by Ben Ali's party) in February authorised the interim president to rule by decree. The new government quickly signed major international human rights and anti-torture agreements. A plan for a law in 2011 giving women equal rights in acquiring, changing and keeping nationality may now be postponed.

Deep social discontent, lack of civil liberties and official corruption caused the revolution. The government's battle against Islamic fundamentalism was used as an excuse to stamp out civil rights and freedom of expression. Non-governmental organisations such as the *Ligue des droits de l'homme*, Amnesty International, Reporters Without Borders and Human Rights Watch routinely condemned repressive laws, prison conditions, arbitrary arrests and media censorship. Tunisia ranked 144th out of 165 countries in the 2010 Democracy Index compiled by the Economic Intelligence Unit (EIU). The uprising at the end of 2010 was facilitated by the Internet and social network websites, the only places of free expression for thousands of young people. The army brought down the regime by refusing to fire on demonstrators. About 200 people were killed and 500 wounded during the rebellion between mid-December 2010 and mid-January 2011.

The regime's stability, a key to investor confidence, was shaken and Tunisia could lose its place as Africa's second most stable country (after Botswana) in the EIU's 2010 Global Peace Index.

Social Context and Human Resource Development

The government's main social challenge is still reducing unemployment. All the MDGs should be achieved on schedule by 2015, except for target 16 concerning job creation for young people. The UN Development Programme's 2010 Human Development Report puts Tunisia in 81st place among 169 countries. Its Human Development Index score improved by an average 1.5% a year between 1980 and 2010 and poverty has greatly diminished, with only 2.6% of the population living below the poverty line in 2010.

The government spent 7.2% of GDP on education in 2010 and 3% on health. The healthcare system works very well and figures show substantial improvement. Life expectancy at birth was 74.3 years in 2010, malnutrition almost non-existent and infant mortality 21 per thousand. Health insurance is obligatory for all. Government clinics and hospitals provide free treatment to all Tunisians and resident foreigners.

Tunisia has focused in recent years on higher education, gender parity and a balanced distribution of universities around the country. The government funds 75% of public universities and technical colleges (*Instituts universitaires technologiques* - IUT) and 6.2% of adults had higher education² certificates in 2010, above the world average of 3.94%. Gross enrolment at the country's 13 state universities, 24 IUTs and 20 private universities has sharply increased (to 31%) in recent years. But growing unemployment of graduates and qualified school-leavers has led to doubts about educational content and debate about job creation. The cost of higher education was 1% of GDP in 2009 - USD 65 per student (at purchasing power parity).

Unemployment, high for the last decade, was officially 14.2% in 2010 (13.3% in 2009), with women (16%), under-25s (30%) and graduates (20%) the most affected. A 2010 unemployment survey (*La précarité de l'emploi en Tunisie et ses impacts sur les travailleurs*) showed a large gap between the quality of jobs available and increasingly-skilled job-seekers. The European economic crisis also reduced the market for some graduates and many were forced to take low-paid or low-skilled jobs for lack of a system of unemployment benefits. This led to unrest among the country's youth and to the revolution. In January 2011, the interim government offered long-term unemployed graduates and school-leavers a monthly TND 150 (EUR 77) payment, along with healthcare and cheap public transport, in exchange for part-time civil service work. This compared with the national minimum public sector 40-hour-week wage of TND 225. Longer-term solutions need to be found.

The unrest began when high-school students, young people and others took to the streets to protest against unemployment and high prices after the suicide of a young street-vendor in the town of Sidi Bouzid. Demonstrations and clashes with police and troops spread to other provincial areas and then to big cities and the capital. Regional economic disparities were also a cause of the uprising and it was significant that protests began in backward areas where unemployment and poverty were greater than in tourist-dominated coastal areas that get more than two-thirds of government investment.